

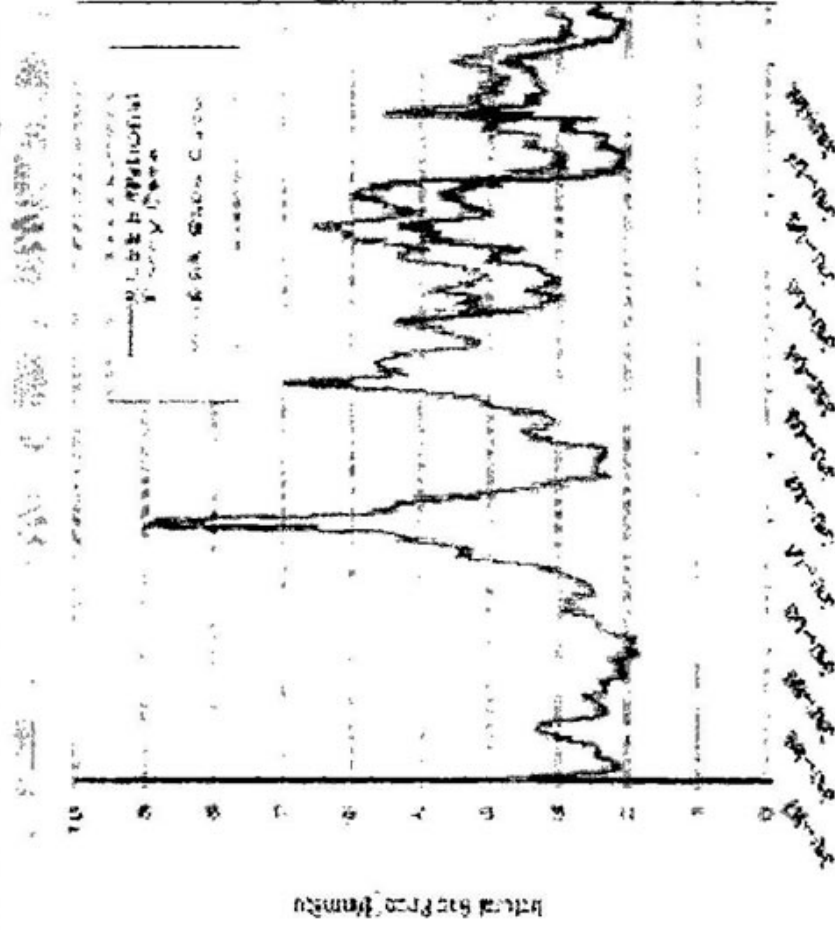
Impact of efficiency, community choice, renewables – high renewables % competes well with utility rates

- CA reduced peak electricity demand by 11% in late spring of 2001 and helped break market power;^a
- Saving peak energy fastest way to reduce gas usage and price - 20% price reduction, \$0.90/MMBtu, possible in 12 months;^a
- Sept 2004: 40 cities/counties seeking to go community choice, 22 have committed to 40% RPS by 2017, other 18 yet to disclose RPS commitment;^b
- These 22 cities/counties, plus San Francisco, represent ~15-20% of statewide electricity load;
- Sept 2004: Navigant study – even in worst case scenario with H bond direct financing (San Francisco approach), no rate increase with 40% RPS – low cost energy efficiency programs neutralize higher cost of renewables.

a) American Council for an Energy-Efficient Economy, *Impacts of Energy Efficiency and Renewable Energy on Natural Gas Markets*, December 2003.

b) Comments of Paul Fenn, Local Power, summarizing presentations at Law International's *New Directions for California Energy Markets* seminar, Sept. 16-17, 2004, San Francisco.

ACEEE – National effect of efficiency and renewables on natural gas price



Gas demand reduction is best public policy approach

- Tremendous public support for renewables;
- Conservation effort in spring 2001 probably most unifying event among CA citizenry in last 25 years;
- The public interest would be best served by decreasing demand aggressively with efficiency and renewables, not increasing supply via LNG;
- Biggest political obstacles to implementing demand reduction policy will be utilities and companies with financial interest in natural gas and LNG supply business.

Company's prediction of a natural-gas crisis is challenged by other energy experts

By Craig D. Rose
STAFF WRITER

October 3, 2004

San Diego-based Sempra Energy has a chilling view of the nation's prospects for producing natural gas, the fuel used to heat a majority of U.S. homes and increasingly used to generate electricity.

Within a decade and a half, Sempra says, North America's gas production will soon fall dramatically. That leaves the United States with no course but to build a large network of liquefied natural gas receiving terminals and vastly increase imports of the gas, the company says.

Sempra has used its dire vision to win regulatory backing for its plan to build terminals for LNG, projects opposed by many communities and environmentalists.

Last month, the California Public Utilities Commission voted for the first time to accept gas from an LNG terminal that Sempra proposes to build in Baja California, as well as other terminals planned along the state's coast.

But while most analysts say LNG will play a role in the future, there is no state or federal energy forecast that accepts Sempra's dire view of plummeting gas production.

Forecasts from the Department of Energy and the National Petroleum Council, a broad industry group, predict slight growth – not a decline – in gas production in coming years.



Associated Press

The Trunkline LNG terminal in Lake Charles, La., is one of just four operating in the United States. Plans for new terminals – which supporters say will be needed to ensure gas supplies – have sparked opposition from communities around the country.

"There is no way we can reverse the decline," Hulse said.

For Sempra, the solution is unavoidable: Move quickly to bolster gas supplies with LNG. Sempra chief executive Stephen Baum predicts that by 2008, large imports of LNG will begin moderating U.S. natural gas prices, which have risen sharply in recent years.

Bill Powers, a longtime energy industry engineer, takes issue with Sempra's prediction.

Powers, who has been a consultant for government, industry and environmental groups for more than two decades, underscores that other energy forecasters expect gas production to grow in North America, albeit at a modest clip, or remain flat.

LNG development is a choice, not a necessity, he says. He argues that it's not a good choice for California.

"Sempra is trying to create this buzz that we are running out of natural gas and if we don't jump on this LNG train yesterday, we will be in desperate straits," said Powers, chairman of the Border Power Plant Working Group, which advocates for clean energy development along the U.S.-Mexican border. "That's not true."

Powers believes that Sempra's crisis forecast excessively influenced a majority of the California Public Utilities Commission, which voted last month to accept LNG into the state's pipelines.

In discussion leading up to that 3-2 vote, commission members warned of possible gas shortages.

"All experts agree that the current infrastructure and natural supply will be insufficient," PUC Commissioner Susan Kennedy said, before voting to approve LNG shipments. She also urged action to stem rising prices.

However, the California Energy Commission forecast late last year that supplies of natural gas will be adequate for the foreseeable future. The state imports 85 percent of its natural gas via conventional pipelines.

Although some outside sources are declining, the energy commission said, growing imports from the Rocky Mountains will offset production declines in California and elsewhere.

That forecast was issued before the PUC voted to require California to derive 20 percent of its electricity from renewable sources by 2010. Dave Maul, who oversees monitoring of natural gas supply and demand at the energy commission, said he expects that commitment to cut the growth in California's demand for natural gas from 1 percent annually to 0.5 percent.

LNG on the West Coast?

Dozens of liquefied natural gas receiving terminals have been proposed around North America but far fewer are expected to be built. Each terminal, where the liquefied fuel is converted back to a gaseous state, will require about 10 supertankers to keep it supplied.



Maul said he is more worried about price than supply.

"I am concerned we will pay more and more for the gas," he said.

Powers argues that LNG imported to the West Coast won't help moderate prices because the long distances required to ship it here – plus processing costs – will likely make LNG more expensive than gas produced in North America.

He also noted that LNG, whose technology is not new, has only become commercially viable because of a doubling in natural gas prices in recent years. While some assert the price increases prove shortages are at hand, others note the natural gas market has also been roiled by price and supply rigging in recent years.

Natural gas is extracted by driving taps into resource basins and funneling the fuel through land-based pipelines. By using LNG technology, the gas can be tapped from foreign fields, supercooled to a highly condensed liquid and imported to North America aboard supertankers.

When the tankers arrive at terminals such as the one Sempra proposes in Baja, the gas is reheated to its gaseous state, processed to ensure compliance with U.S. standards and injected into pipelines, where it becomes indistinguishable from gas from conventional sources.

LNG supporters say it will help diversify U.S. energy sources by increasing supply and transforming gas into a widely traded commodity like oil.

Opponents of the technology don't like all of that picture.

They argue that a growing reliance on LNG will hook the United States on an additional fossil fuel from abroad – just like oil – and squander resources better spent on building national energy independence through conservation and renewable power development.

They also note that much of the gas slated for conversion to LNG will be derived from poorer nations and from pristine natural environments.

Another potential roadblock to LNG development is an ongoing dispute between the PUC and the Federal Energy Regulatory Commission over which agency has jurisdiction to approve siting of the projects. That dispute is now being litigated.

No matter who wins, citizens in most towns are less than happy about the prospect of LNG terminals and tankers moving the highly flammable fuel through their communities. LNG opponents fear accidents and the potential for terrorist attacks.

Supporters say there have been few accidents, although an Algerian liquefaction plant exploded this year, killing 27 people, and an LNG accident in Cleveland in 1944 caused the deaths of 128 people.

More than 30 LNG terminals have been proposed around the country, and in many of the communities stiff opposition has arisen – in some cases causing plans to be scrapped.

Opponents in Long Beach are fighting a proposal to build an LNG terminal there. Another California terminal is proposed about 20 miles off the coast of Ventura County, and a third also is planned nearby off the coast.

So California is central to LNG plans, although no one suspects that all planned facilities will be built here. Donald Felsing, Sempra's president and chief operating officer, believes that only a handful of all proposals nationwide will result in new LNG plants by the end of the decade.

However, Felsing also believes that recent action by state regulators was a ratification of his company's LNG advocacy.

"The CPUC vote was a milestone because the utilities came to the conclusion that one of things that would be beneficial for California is to have a diversity of natural gas supply," he said.

The nation's demand for natural gas is rising because, compared with other fossil fuels – oil and gas – it burns cleanest. Increasingly, it is being used to fuel electricity power plants. Nearly all new large California power plants are fueled by natural gas.

Assuming the state has adequate gas supplies without LNG "would be a risky bet," said Sempra's Hulse. "Natural gas shortages would lead to severe shortages for our economy."

He said his company's forecast of a pending steep decline in gas production is shared by other companies investing in LNG. But he acknowledged that Sempra's forecast is far worse than those of the U.S. Department of Energy and the National Petroleum Council.

Still, he said he is comfortable with the company's outlook.

"We don't look at one source. We look at everything," he said. "The chance of us finding a huge new gas supply that would change our production decline is very remote."

The natural gas forecast is based to a large degree on studies of the decline in U.S. oil production, which began in the 1970s, he said.

"In oil we never did make that huge find that reversed our decline and at this level of maturity in our gas production, we don't think we'll find it there, either," he said. "And I think more and more consultants are coming around to our way of thinking."

However, LNG opponents say Sempra's "apocalyptic view" has been too influential and not carefully scrutinized.

Loretta Lynch, a PUC member who opposed Sempra's LNG proposal, said it should be subjected to the commission's "gold standard," evidentiary hearings in which industry executives testify under oath and are subjected to cross-examination.

At the hearings, commissioners could have considered proposals to retrofit older natural-gas-fired power plants with new equipment and cut natural gas demand more than 10 percent, she said.

G437-284

Sections 1.2.2, 1.2.3, 3.3.1, and 3.3.2 have been updated since the October 2004 Draft EIS/EIR. These sections discuss the sources of the information provided.

Exhibit 2

G437-284

18 December 04

To: Ken Kusano, US Coast Guard
Cy Oggins, CA State Lands Commission

From: Woodrow W. Clark II, Clark Communications LLC

cc: Linda Krop, Environmental Defense Center

Re: Cabrillo Port Draft Environmental Impact Statement/Report ("DEIS/R")

In this comment letter, I will first challenge and dispute the alleged facts presented in the DEIS/R. Then at the end of this comment, I want to make the most serious charge: gross negligence and misrepresentation on the part of the parties involved in this work, data collection and overall public policy. The California Energy Commission ("CEC") data is wrong because it only addresses part of the energy story in California. In part this is due to internal problems with the CEC as many staff and even Commissioners cannot manage all the data that concerns the energy sector. What the CEC data, reports and policies lack are the total picture, which is provided by other agencies, groups and organizations. This is an issue that has been disputed in California for many years (many conflicting and crosscutting groups involved in energy data and policy making).

But above all, the State of California does NOT have an Energy Policy.

In short, before any decision(s) on LNG or other massive project with long-term consequences are made in the area of Energy, it behooves the State and its public policy makers to have such a policy. Such a policy will be under consideration by the Legislature and Governor in 2005. An Energy Policy should be adopted by the fall of 2005. Perhaps it is worth nothing as well that the Federal Government has NO Energy Plan. In fact that issue too is now going to be under consideration in the next session of Congress starting in 2005. Again it would seem prudent to have such a National Energy Plan in place from which to work before such massive costs are incurred at the regional or state levels.

However, the most serious misrepresentation is that even the last and current Integrated Energy Resources Report (2003-04) does not include data from the California Independent System Operators (CAL ISO). In the DEIS/R the CAL ISO is NOT even referenced or discussed in any of their documents or the DEIS/R. CAL ISO is responsible for the spot energy market in Calif. and hence the most reliable source for both data and future predicted needs on the grid for the State. CEC does monitor and collect data on Natural Gas needs but that is only part of the total energy picture. In the natural gas area too, other departments and agencies are far more knowledgeable such as the Resource Agency and its Department of Water and Power.

When considering all the data on natural gas, the DEIS/R should consider all the facts collected by the Interagency Natural Gas Task Force formed by Governor Davis in the spring 2001 under the California Resources Agency (now within the CEC and its LNG Working Group) which

traced the supply of natural gas. Data over the last 3 years will prove very significant and reflect both the actual demand for natural gas, market manipulation, costs and future storage reserves.

DEIS/R Issues:

Introduction

Section 1.2 "Project Purpose, Need and Objectives" (pp. 1-6 through 1-9).
 "Need" and "Project Objectives" subsections (1.2.2 and 1.2.3).

RE: Energy Demand Issues.

The basic problem with the DEIS/R is that it does NOT cover the entire supply and demand of energy in California. Instead, some but not all data sources are used. As noted above one major flaw is the lack of data from the CAISO. Yet three other major sources are not fully considered. As noted below, the entire energy conservation and efficiency programs are not fully accounted for; nor, secondly are the prospects for the yet under-funded renewable energy supplies (both as central grid and on-site generation; and finally the various regional (western states) and international sources are not considered. Important new programs are already underway with the Western States Governors' Association as also with Mexico and Canada on renewable energy generation. The focus heretofore has only been on LNG and natural gas in general.

One other serious problem exists. The notion that more natural gas is needed in California let alone other American regions and States ignores a basic premise in Public Policy: set up a bi-partisan group to develop a Plan. The Governor of California has repeatedly demonstrated that need in California and shown by example that such planning works. The State does NOT have a comprehensive Energy Plan and it is easy to see that one will be developed in 2005. The bi-partisan Gubernatorial State vision and goal for Energy Independence has not been made it into any comprehensive energy plan or document.

The current plans and reports from the California Energy Commission, California Public Utility Commission and various companies or associations are all pieces of a larger puzzle. Is there for example, a Renewable Energy Generation Plan (to implement the California Renewable Portfolio Standard) in place? Or is there even a comprehensive Energy Demand for Conservation and Efficiency? None exists that are either current, based on comprehensive data and focused on the need for short and long term incentives, financing, contracts etc.

References:

California Independent System Operators (CAISO), Report Series from "Intermittent Resources Working Group: Board Resolution on Imbalance Rules, Consensus Proposal and Tariff Revision Filing, and Wind generation forecasting" August-November 2001.

California Independent System Operators (CAISO), Report Series from "Intermittent Resources Working Group: Board Resolution on Imbalance Rules, Consensus Proposal and Tariff Revision Filing, and Wind generation forecasting" August-November 2001.

Tariff reform for Intermittent Energy Resources (wind and solar) before the Federal Energy Regulatory Commission (FERC) which accepted the reform on 28 March 02 and is listed on: <http://www.caiso.com/docs/2002/02/01/200202011116576547.html>

Alternatives, Section 3

This section addresses the elimination of Energy Conservation and Renewable Energy as alternatives (pp. 3-1 through 3-6). The basis for such rejection is false and incorrect.

Energy Conservation and Efficiency

The DEIS/R states that "Energy Conservation measures should not be considered alternatives because they will occur whether or not the LNG project is approved." That is false. Some measures will occur but will reduce projected demand. However, other measures will not necessarily occur unless there are public policies, alternative programs and continued financing to support them. The DEIS/R fails to identify or quantify specific data (see references below) and guaranteed measures such as the "Flex Your Power" program under both Governor Davis and Schwarzenegger.

For example during the California Energy Crisis, especially the Spring and Summer of 2001 with conservation and efficiency saved blackouts with a 12-15% reduction of demand on the system. The State has about 53,000 Mw of energy use daily. With at least a 10% saving during the peak summer months of Summer 2001, 5300 Mw were saved daily and no predicted Blackouts occurred.

Moreover, the state has now under Governor Schwarzenegger's Ex Order "Sustainable Public Buildings" required new buildings to be built under Silver LEED standards. This is critical, as enormous energy savings will occur. Furthermore, the impact on the private sector new construction for office and residential buildings will also begin to comply with this State initiative.

Furthermore for the DEIS/R to state that the alternatives will occur "whether or not the LNG project is approved" is blatantly false. The fact is that there is little or no money in the State to fund these alternatives. Certainly there is NOTHING financial on the magnitude that LNG promoters are spending not only in their public relations campaign or lobby efforts. If even half of those resources were spent on the alternative energy solutions then there would not be a need for LNG or other foreign energy fuel supplies.

To also state that measures to improve energy conservation address "long term energy policy and usage considerations" is simply wrong. As noted above these measures as reflected in Flex Your Power were immediate and dramatic at a very low cost.

But even more disturbing is the notion that LNG is both a "short-term and mid-term" need for California to meet its energy needs. That is both wrong and based on false finance and economic information. The installation of any LNG facility results in long term stranded costs for the facility but also for the infrastructure needed to service it in terms of technical requirements and for distribution of the natural gas itself. Moreover, it makes California even more dependent on this ONE source of fuel supply rather than encouraging it a more diverse supply.

In short, Energy Conservation must be considered part of the “baseline conditions” in order to ascertain true demand.

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Bernstein, Mark A., Paul D. Holtberg, and David Ortiz. "Implications and Policy Options of California's reliance on Natural Gas", RAND, Santa Monica, CA. June 2002, pp. 1-41. ISBN:0-8330-3217-8

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Governor Schwarzenegger Ex Order # S-20-04 (15 Dec 04) "Sustainable State Buildings", Sacramento, CA. See Appendix C.

Renewable Energy

Let us now turn to the other serious misrepresentation in the DEIS/R: Renewable Energy.

While the State has a Renewable Energy Portfolio Standard supported by Governors' Davis and Schwarzenegger, the reality is that there is very little money to fund it at the State and local level. The fact is that California Governors for the last five years have called for the State to become "Energy Independent". Such a policy and vision requires both local power generation and central grid energy over transmission lines.

The Economist (11 May 04) noted what this new "Energy Internet" model might look like. See Appendix A. It is similar to that perspective outlined in "Agile Energy Systems" (Clark and Bradshaw, 2004). A State Interagency Working Group outlined a Comprehensive Investment Plan for Renewable Energy Investment (Grandy et al. 2002). See Appendix B for the Plan Chapters.

Wind generated power costs are now on a par with natural gas, especially as its price has increased over the last 2-3 years. However, wind is neither base load nor found regionally all over California. And to date, there have been NO offshore wind generation programs. Hence, wind for grid transmission without financial support is limited.

Solar Thermal is becoming increasingly cost effective but still not widely installed throughout the state or in nearby states for transmission to California.

Geothermal is another plentiful renewable resource in California and also still more expensive today. Nonetheless it appears to be a major new source of energy throughout the state within the next 3-5 years.

Biomass is well established in the state and increasing with new technologies and applications for municipal waste treatment.

Grid transmission

For example, Governor Schwarzenegger approved the expansion Path 15 (which is the key line between northern and southern California on 16 Dec 04. This expansion will be an enormous boost to providing more energy throughout the state including the increase of renewable generation.

On-site or Distributed Generation (non- natural gas)

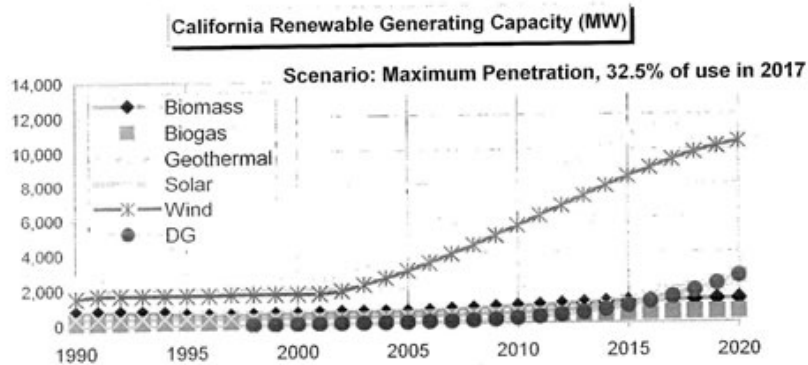
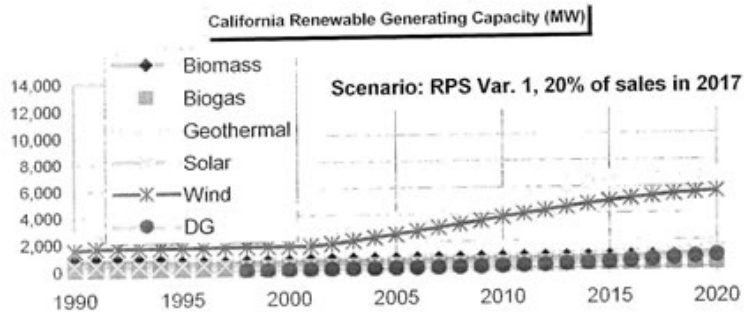
Solar energy from systems installed on homes, buildings and office complexes is increasing rapidly.

When combined with other technologies and LEED standards, current costs are a bit high but rapidly decreasing. Overall long term costs for energy are greatly reduced.

Hydrogen under Governor Schwarzenegger is on the fast track. Initially the plan (RoadMap issues in Dec 04) is to use natural gas reforming. However, this plan is limited and will be only for 5-6 years. By 2010, the parallel track of electrolyzing renewable energy sources (water, electrons from solar, wind and geothermal) will be cost competitive and widely used.

The Conclusion of the Governor's Office Comprehensive Renewable Energy Investment Plan (2002, pp.8-9) is worth quoting here:

"Over the longer term, all of the renewable resources except solar could become resource limited, and achievement of any goals beyond those currently in place is wholly dependent on cost reductions and technological innovations in solar technologies, as this fuel resource is effectively unlimited. The figures below illustrate this concept.



Conclusions

Any reasonable near-to-middle term scenarios that involve significant growth in renewable energy production in California will be dominated by increased geothermal and wind generating capacity. Due to the low operating factor for wind generators, geothermal alone dominates total renewable energy production. Biomass and biogas resources may be able to double in their contribution, but resource limits will not allow growth to go much beyond that level. Solar power generation is still in the early stages of commercialization, and will not be able to make a major contribution to total California renewable energy production before 2015. However, as the maximum penetration scenario figure (second figure) shows, a strong effort to develop these technologies now will yield substantial contributions by 2020 and beyond.

The primary conclusion to be drawn is that the goals in the RPS of 20% renewable energy by 2017, as well as the Governor's extended goal of 25% by 2025 are clearly achievable.

This plan also assesses the cost for moving the present mix of energy, containing approximately 8% Renewable Energy, to the 20+% renewable level by 2017. It identifies several realistic scenarios for achieving this goal, and identifies the costs associated with that achievement. In the lowest cost scenario the capital investment for new renewable energy is estimated to be \$17 billion. Ongoing annual incremental costs for renewable energy, including amortized capital cost and operation and maintenance expenses are estimated to be in the neighborhood of \$250 million. This can be compared to the overall cost of energy in California (which includes transportation) of \$85 billion per year.

Thus, the transition to the more sustainable energy future envisioned in the RPS would involve a 3/10 of 1% increase in the cost of energy. These costs are offset by the fact that this investment realizes reduced fuel costs (assuming solar, wind and tidal energy to be free), greater economic opportunity for the state in terms of new jobs and the expansion of industries, the resultant economic activity, the consequent increase in sales and income tax revenues, and a better quality of life, including a healthy and attractive environment.

The cost for renewable energy is also reduced because much of the renewable energy generation is well distributed around the state, with some of it located at the site of energy use, thus reducing the requirement for expanding the energy grid infrastructure in our State. The introduction of new hybrid technologies with documented potential cost savings and the integration of energy-transportation-water and related infrastructures demonstrates that further cost reductions are probable. A key factor will be governmental units acting as partners with the private sector in implementing such energy plans."

The issue here is that this Report on the potential for renewable energy generation on-site and central grid in California has NOT been implemented. By the end of 2004, there was very little progress made in these areas. The problem is that there is little or NO money other than "buy-down" and "rebate" programs, which are short term, basic on ratepayers' fees, and usually over subscribed. In short, the demand for the rebates far exceeds the ability of the agencies or utilities to comply.

Moreover, the central grid demand for renewable energy generation exists but with few long term contracts to encourage the industry to invest. These barriers need to be eliminated. When they are, the supply of renewable energy will easily meet the State demands for power over the next 30-50 years and beyond. If the same amount of capital and finance were directed at renewables as they are now at LNG, the State would NOT be in danger of any near or long-term energy storage.

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Environmental Justice: section 4.19

What has not been discussed herein but noted in the DEIS/R in passing is the "ethnic" or minority communities in the area impacted by the LNG plans. This "environmental justice" issue is as large and troublesome as anything mentioned in the entire Report. Yet it is not addressed. The issue of bringing LNG into low-income communities has not been discussed and certainly the health, social and economic impacts considered. A separate analysis should be made public in the appropriate languages over this topic.

If I can provide more information or data, please contact me directly at the numbers provided in my short Bio below.

Sincerely yours,

Woodrow W. Clark II, Ph.D.
 Managing Director
 Clark Communications, LLC

Short Bio:

Woodrow W. Clark II, MA3, Ph.D. is a "qualitative economist" who just finished his book, "Agile Energy Systems: global lessons from the California Energy Crisis" (co-author, Professor Ted Bradshaw, UC Davis) from Elsevier Press, UK in October 04. He is now a Visiting Professor in California and Italy. Clark had started and operated Clark Communications Inc in 1980 after earning three separate Masters of Arts degrees and his Ph.D. from University of California, Berkeley. He is now Managing Director of Clark Communications LLC, founded in San Francisco, but currently located in Los Angeles. He has just (June 04) been appointed a Senior Fellow at the Milken Institute in Santa Monica, CA and can be reached at: Milken Institute +1 (310) 570-4673 wclark@milkeninstitute.org Clark will teaching, in the fall of 2004, Entrepreneurship as an Adjunct Professor member for Pepperdine University in its MBA program.

Clark was the Deputy Director / Senior Policy Advisor to Governor Gray Davis' Office of Planning and Research from 2000-03, where he focused on sustainable development, renewable energy, advanced and emerging technologies, finance and public-private commercial strategies for "California's Next Economy". Clark was responsible for starting the planning and implementation of California's Hydrogen Economy and its "Hydrogen Freeway" until the Recall of Governor Davis occurred. Prior to that he was in the early 1990s, Managing Director, Center